

Human Resources BULLETIN



Federal Court Strikes Down Final Overtime Rule Increasing Salary Threshold for White Collar Exemptions

● November 21, 2024 ●

On November 15, 2024, the U.S. District Court for the Eastern District of Texas vacated and set aside the U.S. Department of Labor's Final rule, entitled Defining and Delimiting the Exemptions for Executive, Administrative, Professional, Outside Sales, and Computer Employees, on a nationwide basis. Pursuant to the rule, the first increase in the overtime threshold took effect on July 1, 2024, and was set to increase again on January 1, 2025. As a result of the recent ruling, the January 1, 2025 increase will not go into effect, and the initial increase on July 1, 2024 is nullified.

Fair Labor Standards Act (FLSA)

As a refresher, under the Fair Labor Standards Act (FLSA), workers must be paid overtime unless they are classified as "exempt". To be exempt, employees must meet two conditions: **(1)** the employee must perform work that is executive, administrative, or professional in nature (also called the "duties test"), and **(2)** the employee must earn above the minimum salary threshold (also known as the "standard salary level"). The new rule required two initial increases in the salary threshold:

July 1, 2024

On July 1, 2024, the "standard salary level" was increased from \$684 to \$844 per week (from \$35,568 to \$43,888 per year).

January 1, 2025

On January 1, 2025, the "standard salary level" minimum number was to increase again from \$844 to \$1,128 per week (from \$43,888 to \$58,656 per year).

The District Court's Decision

The court held with respect to both the July 1, 2024 and January 1, 2025 increases that by setting the salary threshold as high as it did, the DOL created a de facto "salary only" test for the exemptions. The court held that this was beyond the Department's authority under the statute because the explicit text of the FLSA speaks in terms of the duties an employee performs, not the salary that they earn. The court also found that the text of the FLSA expressly requires that increases to the salary threshold must be made via regulations in accordance with the Administrative Procedure Act and that the DOL lacked the authority to put future increases on autopilot. Finally, the court found that given the nationwide effect of the rule on hundreds of thousands of employers and millions of employees, striking down the rule on a nationwide basis was warranted.

Next Steps

It is clear now that the January 1, 2025 increase will not go into effect as scheduled, and as a matter of law, the July 1, 2024 increase is nullified. Employers who were preparing to increase salary levels to comply with the 2024 Rule may now reconsider those increases. Employers could reduce employees' salaries if the salaries had been increased due to the July 1, 2024, increase and still maintain the exemption, but that may be unpopular with their employees. Employers should also remain aware that some states have salary thresholds that exceed the FLSA threshold, including Alaska, California, Colorado, Maine, New York, and Washington.

The DOL may seek to appeal the lower court's decision, although, with the upcoming change in the presidential administration, it is likely that under the Trump Administration, the DOL would abandon any appeal and allow the lower court's decision to stand. Going forward, it is less clear whether the Trump administration will revisit some or all of the rules, repeal it entirely, or perhaps adopt a different iteration. Regardless of the strategies an employer may potentially consider implementing for affected positions, employers have a good opportunity to review the exempt status of their workforce as a whole and conduct a company-wide wage and hour audit to assess potential compliance concerns.

ADDITIONAL RESOURCES

[U.S. District Court for Eastern District of Texas Opinion](#)